

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6205

BILL NUMBER: HB 1098

NOTE PREPARED: Dec 14, 2006

BILL AMENDED:

SUBJECT: Judges' Pensions.

FIRST AUTHOR: Rep. Buell

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill has the following provisions:

Full-Time Magistrates in the Judges' 1985 Benefit System - This bill allows a person serving as a full-time magistrate on July 1, 2006, and requires a person who begins serving as a full-time magistrate after that date, to become a participant in the Judges' 1985 Benefit System.

Purchase of Service - The bill allows magistrates who are participants in the Judges' 1985 Benefit System to purchase, at full actuarial cost, service credit for prior service covered by an Indiana Public Employees' Retirement Fund (PERF).

Cost-of-Living (COLA) Increase - This bill increases the monthly benefit payable to participants, survivors, and beneficiaries of the Judges' 1985 Benefit System by the same percentages and under the same conditions as the monthly benefit is increased for members of PERF.

(The introduced version of this bill was prepared by the Pension Management Oversight Commission.)

Effective Date: July 1, 2007.

Explanation of State Expenditures: *Full-Time Magistrates in the Judges' 1985 Benefit System and COLA* - The fiscal impacts of allowing a person serving as a full-time magistrate to become a participant in the Judges' 1985 Benefit System and of providing the same COLA as members of PERF receive are provided below.

The Judges' 1985 Benefit System is funded on a pay-as-you-go basis. The amounts in the following table

illustrate the impact of this legislation as if the Judges' 1985 Benefit System was funded on an actuarially prefunded basis.

	Magistrates	COLA	Both
Increase in unfunded actuarial liability	\$3,800,000	\$9,000,000	\$12,800,000
Increase in annual funding by employer	\$1,100,000	\$1,600,000	\$2,700,000

Since the plan is funded on a pay-as-you-go basis, the following table illustrates the estimated increase in recommended annual contributions (based on a projection of benefit payouts) over the five years subsequent to the effective date of July 1, 2007.

Increase in Recommended Annual Contributions			
Fiscal Year	Magistrates	COLA	Both
2008	\$159,000	\$48,000	\$207,000
2009	\$179,000	\$53,000	\$232,000
2010	\$189,000	\$57,000	\$246,000
2011	\$201,000	\$60,000	\$261,000
2012	\$215,000	\$62,000	\$277,000

The COLA assumptions used by the PERF actuary assumes an annual COLA of 1.0 % annually with no sunset date. The fund affected is the state General Fund. The above estimate is based on 2005 data.

Background Information for Purchase of Service Credit: The bill provides that the purchase of service credits by magistrates must be at full actuarial cost. This means the following are considered: (1) the member's salary at the time the member actually makes a contribution for the service credit and (2) a rate determined by the actuary of the fund based on the age of the member at the time the member actually makes a contribution for service credit and computed to result in a contribution amount that approximates the actuarial present value of the benefit attributable to the service credit purchased. However, a couple of circumstances under which a member of the Judges' Retirement System may wish to purchase service credit and the potential impact to the funds are identified below.

(A) If a member wanted to purchase service credit, the actuary for the fund calculates the cost of that service based on the member's current salary, current Judges' Retirement service earned, and the member's current age. This cost represents the full actuarial cost of the service at the time of the purchase (excepting any future cost-of-living adjustments that may be awarded). In other words, if a member purchases the service credit on one day and then retires with benefits commencing the next day, there would be no immediate fiscal impact to the Judges' Retirement System. There also would be no immediate real gain to the member because the additional benefits received due to the service would be actuarially equivalent to the purchase price of the service. This changes, however, once a COLA has been awarded. Since COLAs were not included in the purchase price, such a COLA would represent a real gain to the member and a fiscal impact to the Judges'

Retirement System.

(B) If the member purchases service credit and continues employment, the member may also be able to benefit from the earlier purchase of service credit for a second reason. As the member continues employment, the member can expect increases in salary. These salary increases will increase the benefit the member can expect to receive at retirement. However, the purchase price of the service purchased was based on the member's salary at the time of purchase before any increases in salary. Any increase in the value of the member's benefit because of salary increases was not included in the purchase price, therefore representing a real gain to the member and an impact to the fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: PERF as administrators of the Judges' Retirement System.

Local Agencies Affected:

Information Sources: Doug Todd of McCready & Keane, actuary for PERF and the Judges' Retirement System, 317-576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Actuarial Cost - A cost is characterized as actuarial if it derived through the use of present values. An actuarial cost is often used to associate the costs of benefits under a retirement system with the approximate time the benefits are earned.

Actuarial Present Value - The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.

Contribution - The transfer of funds or property by either an employer or an employee to an employee benefit plan.

Cost-of-Living Adjustment (COLA) - An across-the-board increase (decrease) in wages or pension benefits according to the rise (or fall) in the cost of living as measured by some index, often the Consumer Price Index (CPI).

Pay-As-You-Go Method - The Pay-As-You-Go Method, sometimes called current disbursement cost method, is a method of recognizing the costs of a retirement system only as benefits are paid.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.